Seat No.:	Enrolment No.

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER 04 - EXAMINATION - SUMMER 2017

Subjec	et Na	de: 2840201 me: Mergers and A	_		
Instruct	ions: 1. At 2. Ma	0 AM TO 01.30 PN tempt all questions. ake suitable assumption gures to the right indica	ıs whe		: 70
	J. FI	gures to the right mulca	ic run	illai KS.	06
Q.1 (a) 1.	indi	vidual investor in an atte		epurchase shares of its outstanding stock from an eliminate a potential unfriendly takeover attempt	VV
	A.	referred to as a golden parachute a poison pill	B. D.	greenmail a white knight	
2	The		stock	in a subsidiary in which the parent usually	
2.	A. C.	a pure play a partial sell-off	B. D	a spin-off an equity carve-out	
3.	A. C.	tical mergers are those in In the same industry In different phases of	B.		
4.		saction is called		on is led by the firm's management then the	
ч.	A. C.	IPO LBOM	B. D.	MBO CFO	
5.	shar			the nature of merger is a case whereof have agreed to become shareholders of transferee	
	A.	More than 50%	B.	100%	
				25% or more mpany by another, wherein the acquiring firm firm ceases to exist as a separate entity, is called	
6.	a A.	Absorption Merger	В.	Consolidation Merger Divestiture	
Q.1	C. (b)	Acquisition Explain the terms with 1. Split up 2. Conglomerate merge 3. Equity Carve out			04
Q.1	(c)	4.Creeping acquisition	Accou	unting treatment (AS -14) in amalgamation &	04

(a) What is due diligence? Highlight the common aspects examined in due diligence by the acquirer team in corporate restructuring.

Q.2

07

07

07

07

OR

- **(b)** What are 'ESOPs'? Explain in detail various types & uses of ESOPs.
- Q.3 (a) Cross- border mergers and acquisitions transactions face special problems along with general problems encountered in domestic mergers and acquisitions of a firm. Discuss in brief the special problems encountered in cross border transactions and ways to overcome it.
 - **(b)** Suchi Ltd. and Trusha Ltd. are discussing a merger deal in which Suchi Ltd. will acquire Trusha Ltd. The relevant information about the firms is given as follows:

Particulars	Suchi Ltd.	Trusha Ltd.	
Total Earnings	Rs. 36 million	Rs. 12 million	
Number of outstanding	12 million	8 million	
shares			
Earnings Per Share	Rs. 3	Rs. 1.5	
Price-Earnings Ratio	10	6	
Market price per share	Rs. 30	Rs. 9	

- 1. What is the maximum exchange ratio acceptable to the shareholders of Suchi Ltd., if the PE Ratio of the combined firm is 8?
- 2. What is the minimum exchange ratio acceptable to the shareholders of Trusha Ltd., if the PE Ratio of the combined firm is 9?
- 3. At what point do the lines ER1 and ER2 intersect?

OR

- Q.3 (a) What are various sources of funds used in domestic acquisitions? 07 Discuss in brief major merits and demerits of each of them.
 - (b) In 2015, the Harsh Ltd. had revenues of Rs. 16 crore on which it earned Rs. 7 crore before interest and taxes. It had capital expenditure of Rs. 530 lakh and depreciation of Rs. 410 lakh in 2015. Working capital as a percentage of revenues, averaged at 5% between 2014 and 2015(working capital increases by Rs. 150 lakh in 2015)The beta of comparable firms in the industry is 1.05 and the average debt ratio of these firms is 24.79%(the cost of debt for the largest of these firms is approx.. 8%). The long term bond rate is 7.5% and market premium is 5.5%. Tax rate is assumed to be 30%. FCFF is expected to grow 5% a year in the long term. Compute the value of the firm.
- Q.4 (a) What are the takeover and antitakeover tactics? Explain it briefly with suitable example
 - **(b)** Find the value of Viaan Ltd. on the base of comparable companies approach, which is a prospective target, from the following information:

Particulars	A Ltd.	B Ltd.	C Ltd.
Market/ Net	30	35	40
Income			
Market/Book	2.56	2.40	3.00
value			
Market/Sales	2.46	2.32	2.92

The current sales of Viaan Ltd. are Rs. 300 Lakhs, Book value of equity Rs. 250 lakhs and Net Income is Rs. 50 lakhs.

OR

Q.4 (a) Explain the provisions under various sections of Indian Companies Act., which are relevant for merger and amalgamation

(b) Parth Company plans to acquire Videsh Company. The relevant financial details of the two firms, prior to merger announcement, are given below:

	Parth Company	Videsh Company
No. of Shares	3,00,000	2,00,000
Market Price Per	Rs. 60	Rs. 25
Share		

The merger is expected to bring gains which have a present value of Rs. 4 million. Parth Company offers one share in exchange for every two shares of Videsh Company.

- (a) What is the true cost of Parth Company for acquiring Videsh Company?
- (b) What is the net present value of the merger to Parth Company?
- (c) What is the net present value of the merger to Videsh Company?

0.5

Profit before tax for current year end amount to Rs. 64 lacs, including Rs. 4 lacs as extraordinary income. Besides, the firm has earned interest income of Rs 1 lacs in current year from investments in marketable securities. It is not usual for the firm to have excess cash & invest in marketable securities. However, an additional amount of Rs. 5 lacs per annum, in terms of advertisement and other expenses will be required to be spent for the smooth running of the business in the years to come.

Market value of land and buildings, plant & machinery are estimated at Rs. 90 lacs and Rs. 100 lacs respectively. In order to match the revalued figures of these fixed assets, additional depreciation of Rs. 6 lacs is required to be taken into consideration. Effective corporate tax rate may be taken at 30 percent. The capitalization rate applicable to business of such risks is 15 percent.

- 1. From the above case, compute the value of business, value of equity and price per equity share based on capitalization method.
- 2. Also determine the value of business as per the net assets method. Assets are to be valued at market value for this purpose and the value of goodwill is also to be considered which is Rs. 6 lacs as per the valuation of goodwill.
- 3. Determine the fair price of an equity share. The fair price of an equity share is to be taken as an average of prices estimated according to the capitalisation method and net assets method.

Q.5 The Balance Sheet of Ki Ltd and Ka Ltd as on 31st March, 2016 were as follows:

Liabilities	Ki Ltd	Ka Ltd	Assets	Ki Ltd	Ka Ltd
54,000 10% preference	5,400		Goodwill		162
shares of Rs. 100 each	-,				
16,20,000	16 200		Land and	7.002	
Equity shares of Rs. 10 each	16,200		Buildings	7,992	
4,32,000					
Equity		4,320	Plant and	17,690	
shares of Rs.		.,020	Machinery	17,000	
10 each					
Capital Reserve	5,184		Furniture	292	540
General			_		
Reserve	3,780	1080 Patents	Patents	648	
Profit and Loss	648 162	Motor		761	
Account	040	102	Vehicles		701
Creditors	756	270	Stock	4374	2808
			Debtors	864	1,393
			Cash at Bank	108	168
Total	31,968	5,832	Total	31,968	5,832

Ki Ltd. & Ka Ltd. merged and formed a new company, called Ki & Ka Ltd, with an authorized capital of Rs. 4.32 crore divided into 54,000 preference shares of Rs. 100 each and 37,80,000 equity shares of Rs. 10 each. The two companies merged on the following conditions:

- 1. Ki & Ka Ltd. allotted to Ki Ltd 54,000, 13% fully paid preference shares and 21.6 Lakh fully paid equity shares to satisfy the claims of Ki Ltd.'s preference and equity shareholders, respectively.
- 2. Ki & Ka Ltd. allotted to Ka Ltd. 4, 75,200 fully paid equity to be distributed among Ka Ltd.'s shareholders in full satisfaction of their claims.
- 3. Mr. Arjun, who mooted the scheme, was allotted 5,400 fully paid equity shares in consideration of his services. The company debited the amount of Preliminary Expenses Account.
- 4. Expenses on liquidation of Ki Ltd. & Ka Ltd. Totaled Rs. 3,240 and were borne by Ki & Ka Ltd.

Ki & Ka Ltd. made a public issue of 2. 16 lakh equity shares of Rs. 10, each at a premium of Rs. 2 per share. The issue was underwritten at a commission of 2.5% on the issue price of the shares. The issue was fully subscribed for by the public. Ki & Ka Ltd. Paid Rs. 91,800 in cash as preliminary expenses.

Prepare Balance sheet of Ki & Ka Ltd after the merger.
